ORG 1 Research Institute Report

Friday, June 21, 1974

Dear Member:

This week the Admin. rolled out its big anti-inflation cannon: "jawboning." But when it was fired, it turned out to be a popgun.

True, the fire was directed not at troubling higher prices, but at the paradox of a temporary price "let-down" for red meat. Nevertheless, Economic Counselor Rush's session with the beef men gave a clear indication of how the Administration views jawboning.

Rush did not ask the meat processors & sellers for anything, and they, in turn, did not offer to do anything, made no promises. The cattle feeders, caught with their stocks up and prices down, got a lecture on the risks inherent in any free-market economy.

That done, the Admin. announced a program of meat purchases, at current prices, for next fall's national school lunch program. The move was designed to stimulate meat buying, keep prices up. Push that line of thought and it suggests stockpiling commodities whenever surpluses develop to threaten prevailing price levels.

Those who hoped the Admin. would follow more active policies were disappointed by this "exploratory expedition to nowhere." The Admin., they contend, seems unable to come up with anything but a return to stockpiling commodities when they are in surplus. It didn't work before and there's no reason to think it will now.

Moreover, it looks as if the gov't won't let prices decline, even in periods when available supplies temporarily outrun demand. And that, they argue, is a very strange way to fight inflation.

Federal spending: Can Congress and the Admin. hold it down? Both say they want to but aren't backing their intent with action. Outlook for cutting the fiscal '75 budget beyond cosmetics is slim. And prospects for holding it to planned limits in '76 aren't good.

Congress is about to pass a law that would give it new power, allow lawmakers to draw up a "counter-budget" to the Executive's. It's hailed as "landmark legislation," "most vital in 50 years." But it won't have much impact till the fiscal '77 budget comes up.

Even if Nixon signs the bill into law in just a few weeks, it comes too late to have any influence on spending in FY '75. And the law specifies a "dry run" in shaping the FY '76 budget. Meanwhile, the Admin. is challenging Congress to do something now.

Budget boss Ash wants $7 bill. cut from the fiscal '75 budget, has urged Congressional liberals to try cutting out $10 billion. It's a good ploy. Congress will be lucky to shave it by $4 bill.

Talk of a $5 billion defense cut is being discounted already. Most lawmakers agree privately they'll be lucky to slice $2 bill. Nor has Congress dealt yet with the traditional budget busters: social programs, housing, education, mass transit, all big items. All these are screaming for more money to catch up on inflation.

Ash is also moving to test Congressional intent on FY '76. He's told departments and agencies to hold down budget requests, has opted for a near-balanced budget of $330 bill. through cuts. There'll be no more impoundment of funds to keep spending down.

But that's not enough. Ash needs Congressional action too, specifically changes in the laws that govern obligated spending: programs adopted in years past with built-in future commitments.

If the changes aren't made, outlays could rise automatically. But obligated spending is something of a Congressional holy cow. It takes uncommon political guts to cut funding for such programs.

Thus Congress faces an early test of its budget control law. The political realities of the '76 "dry run" will be much harsher, the breathing room written into the new law simply not available. High hopes for budget control may be dashed before they're formed.

Those variable-rate notes just announced by giant Citicorp, the N.Y.C. bank holding co: Is this the start of something new? Several other banking firms are watching closely, might follow. But the Sec. Exch. Comm., Treasury & Fed will have the last word.

Chemical Bank, another of the nation's largest institutions, introduced a somewhat similar variable-rate certificate last year. But this was withdrawn at the "request" of monetary authorities, and no other big bank has tried to raise funds in this way since.

If Citicorp, parent of the huge First National City Bank, gets an OK to move on these notes, here's what you should know:

First, the interest will be figured and paid semiannually, at one percentage point above the rate on 90-day Treasury bills for the preceding 6 months. Proceeds will be used by Citicorp to finance its operations, won't be invested in gov't paper.

Second, the notes will be Citicorp's unsecured obligations, not accounts in Citibank. Thus, they won't be covered by FDIC. They'll be backed only by Citicorp's name, which is pretty good.

All in all, there don't seem to be many great advantages in the proposed notes, compared with some available alternatives. The new "money market" funds, e.g., also pay high variable rates, are available in the same $5,000 or $1,000 minimum investments.

And these funds do invest only in Treasurys & prime paper. Moreover, the funds will pay off on 24-hours' notice, at any time, while Citicorp's notes will be redeemable only on interest dates. Neither, of course, can promise that today's high rates will hold.

RIA Observation: Variable rate certificates for savings banks have also recently been proposed, as we advised you last month. In fact, the savings banks are bound to fight the Citicorp move, unless they are permitted an alternative to protect themselves.

Impeachment politics has helped revitalize an old coalition: Dixiecrats & conservative Republicans have gotten together again, are chipping away at major legislation once sure of easy passage.

While liberals have snagged headlines with Watergate events, conservatives have slaved in the pits to get votes, shape bills, and generally to steer the flow of legislation in their interest.

As a result, the thrust of liberal bills is being blunted. Land use, no-fault insurance, strip-mining controls, tax reform, health insurance, consumer protection, now must fight for votes that seemed there for easy passage during the winter and spring.

Democratic leaders Mansfield and Albert admit their troubles, worry about making an impressive legislative record for November. They fear that some of their colleagues are celebrating too early, could face an electorate disgusted with Congress' lack of action.

Gold futures trading for Americans could follow promptly after gold ownership itself becomes legal for all U.S. citizens. And that is now expected no later than the close of this year.

All that'd be needed would be a change in Treasury rules, once Congress and the Pres. agree to take the giant first step. Technically, the right to own gold would include the authority to contract for its purchase, and to take delivery if necessary.

Several commodity exchanges already have trading plans set. Basic trading unit is expected to be a 100-oz (troy) gold bar, worth about $15,000 or so at today's world free market prices. It would take some $1,500-$2,000 in ready cash to buy or sell, plus various "upkeep" costs until the contract is disposed of.

Holiday closing alert: If you're planning to close up shop on Friday, July 5, to provide a long 4-day weekend, be careful. The way you handle it could set you up for a costly violation of the federal rules on overtime pay. Here are the details:

It's not the closing for the day after the legal holiday that can cause trouble. The law doesn't have anything to say about that, whether it is done with or without pay for the day.

But some firms may plan to tell workers they are expected to "make up" the time by working an extra shift or a Saturday, in some later week. And that is almost always a bad mistake.

The federal law is specific: Any time worked over 40 hours in a single workweek must be paid for at time-&-a-half rates. With very few exceptions, you just can't carry forward or back time off or time worked from one regular workweek to another. And that's regardless of whether the workers agree or volunteer.

RIA Recommendation: If your personnel people have any doubts about your firm's plans for handling the extra holiday time off, contact your nearest U.S. Labor Dept. Wage and Hour Div. office. There's no harm in asking, and it could just save you a bundle.

The state of Nixon diplomacy on the eve of the Moscow summit: Nothing has been settled, but most things have begun settling down. And that's just what it takes to get crucial negotiations going.

The Mideast has cooled off enough to make new war unlikely. There's now room to maneuver, time to hash out the major problems, perhaps even enough time to begin working out permanent solutions. Moreover, this has been achieved without provoking the Russians.

Indeed, Nixon & Kissinger worked with Russia to calm things, have reinvolved Moscow in the area as a silent partner, not a foe. That may not last, of course, but is a diplomatic plus at present.

Nor is Europe as worried about our intentions as it once was. U.S. "evenhandedness" in the Mideast is now better understood. That, in turn, has raised confidence in U.S. talks with Moscow. The Ottawa NATO meeting this week closely resembled a love feast.

Again, nothing really substantial came out of the NATO talks. Kissinger's hopes for a new Atlantic Charter were buried long ago. But the declaration NATO members adopted cleared the atmosphere, set up an improved machinery for consultation within the alliance.

Nixon's role in Brussels for the formal signing ceremonies will send him off to Moscow as a kind of ambassador for the West. Europe's fear of a big-power deal at its expense has now lessened.

As for the Moscow talks themselves, some progress is likely. Not necessarily the "conceptual breakthrough" Kissinger wanted, but some limited agreement on missiles, trade, contacts, troops. In short, enough gains to leave some momentum in a slowed detente.

In all, it added up to an ingenious diplomatic balancing act that kept everything that could have gone wrong from going wrong. It leaves big-power politics in position for real progress later.

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